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TRUE COST OF FINANCIAL CRIME COMPLIANCE STUDY

Global Report

March 2020

BACKGROUND AND OBJECTIVES

The True Cost of Financial Crime Compliance Report/Global Edition Provides Industry-Driven Insight into Financial Crime Compliance Across Four Regions (APAC, LATAM, EMEA, and North America) and Specific Markets within These Regions.

It informs on the current and trending state of compliance and helps financial services firms:

- Understand the cost of compliance, its year-over-year trends, and the degree to which these are apportioned across resources and compliance activities
- Identify the compliance-related challenges facing financial services firms and ways that these drive operational priorities
- Determine the business impact of the financial crime compliance environment and third parties, including how this influences compliance workflows, due diligence efficiencies/productivity, new customer acquisition, and costs
- Recognize ways that compliance requirements can provide broader benefits to the business
- Learn about the role of technology for supporting increased productivity and decreasing costs
- See how all of the above differ across global markets

METHODOLOGY

A Comprehensive Survey was Conducted Among 898 Financial Crime Compliance Decision Makers Across the Markets and Types of Organizations Shown Below.

SURVEY OF 898 FINANCIAL CRIME COMPLIANCE DECISON MAKERS

APAC
Indonesia
Malaysia
Phillipines
Singapore

EMEA
France
Germany
Italy
Netherlands
South Africa

Across Four Regions

LATAM*
Argentina
Brazil
Chile
Colombia
Mexico

North America*
Canada
United States

Respondents included decision makers within the **financial crime compliance function who oversee:**

Know Your Customer (KYC) remediation, Sanctions monitoring, Anti-Money Laundering (AML) transaction monitoring, and/or compliance operations

Organizations represented:

- Banks
- Investment Firms
- Asset Management Firms
- Insurance firms

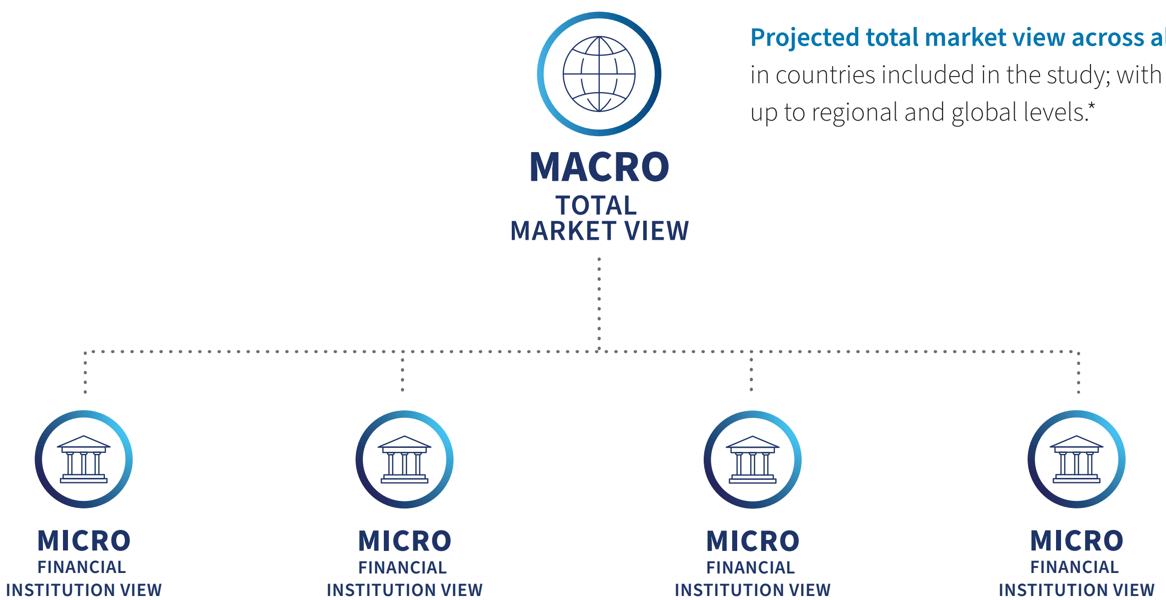
Where organizations are referred to in terms of asset size,** they are defined as:

- Small <$10B total assets
- Mid/large: $10B + total assets

** For the purpose of this study, Mexico is included with LATAM instead of North America.*
*** All currency references in this report are based on USD.*

COST OF FINANCIAL CRIME COMPLIANCE: MACRO AND MICRO VIEWS

The True Cost of Financial Crime Compliance Report Informs on the Cost of Compliance from Two Levels as Illustrated Below.



Projected total market view across all financial institutions in countries included in the study; with country-level totals rolled up to regional and global levels.*

Annual cost of financial crime compliance for an individual institution; from these, we obtain an average annual compliance spend across financial firms.

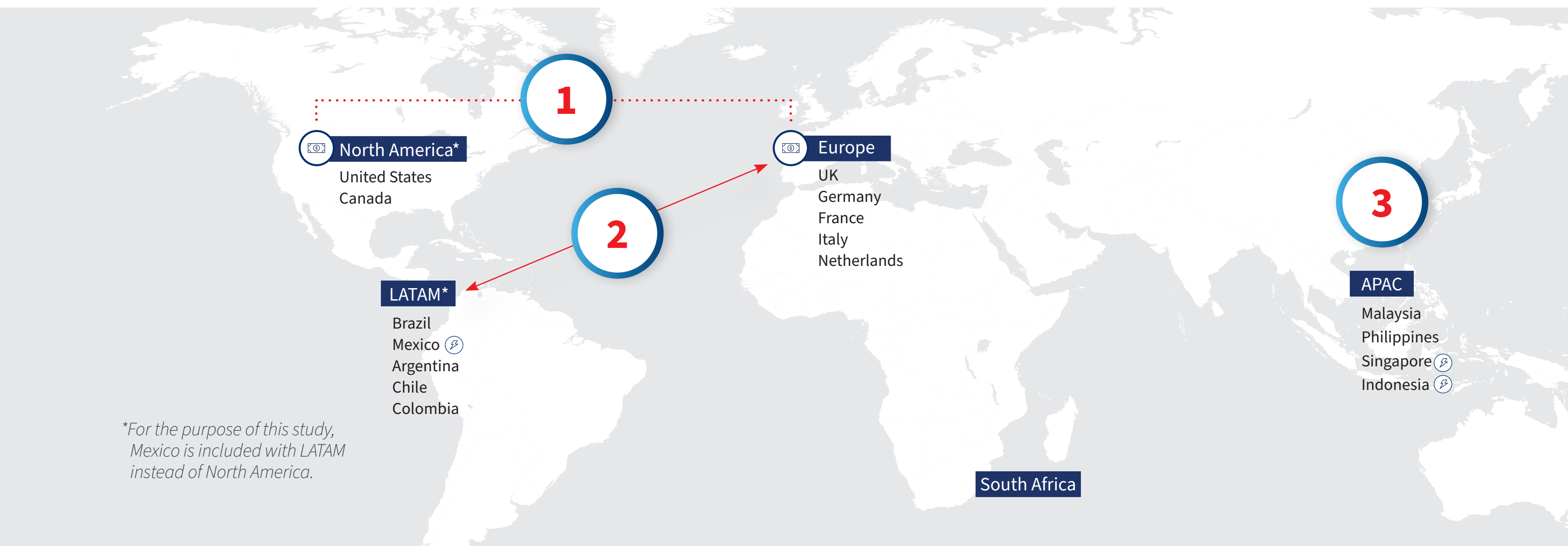
HIGH LEVEL REGIONAL OBSERVATIONS: RELATIVE POSITIONS ON SIZE/CHALLENGES

All key markets included in this study have risks and challenges related to financial crime compliance. Some regions and countries have more than others, though that doesn't diminish the pressures and costs experienced by all markets.

1. **The largest regional markets for financial crime compliance are in Europe and the U.S.** There are significantly more financial institutions in these markets, with substantially higher average spend on financial crime compliance, compared to other regions.

2. **At a regional level, Europe and LATAM experience the most challenges with financial crime.** There is a tremendous level of regulatory activity that continues to be brought into force in Europe. The LATAM region is very active with predicate offenses (e.g., underlying money laundering activities), particularly with porous borders that enable narcotics trafficking.[1]

3. **There are specific countries outside of Europe and the LATAM regions which also experience heightened challenges more so than others.** These include Singapore, Indonesia, and Canada. Singapore still reverberates from the 1Malaysia Development Berhad (1MDB) scandal involving a number of its financial institutions, with increased pressure and oversight by the Monetary Authority of Singapore (MAS) as a result.[2] Indonesia is a key market for terrorist financing[3]; de-risking is rated as a top financial crime compliance driver there as much as it is by LATAM financial institutions. This, along with a sizeable level of Indonesian deposits in Singaporean banks, has earned extra attention by the U.S. Treasury Department.[4] In North America, Canada is cited as "one of the world's major money-laundering jurisdictions" by the U.S. State Department.[5]



*For the purpose of this study, Mexico is included with LATAM instead of North America.

1 knowyourcountry.com/brazil1111; Mutual Evaluation Report of Mexico 2018, Financial Action Task Force (FATF); fatf-gafi.org/countries/#Mexico; Argentina: Financial Information Unit's New AML Regulations for Financial Institutions, DLA Piper, July 12, 2017; latamlawblog.com/2017/07/argentina-financial-information-units-new-aml-regulations-for-financial-institutions/
2 sbr.com.sg/source/zuu-online/heres-how-singapore-banks-are-involved-in-1mdb-scandal
3 Asia/Pacific Group on Money Laundering (APG) Mutual Evaluation Report, September 2018
4 flexicompliancenews.com/us-treasury-department-targets-singapore-for-money-laundering
5 theglobeandmail.com/canada/article-canada-needs-to-do-more-to-curb-money-laundering-us-report-says/

SUMMARY OF KEY FINDINGS

01

The projected total cost of financial crime compliance across all financial institutions in the key markets of APAC, EMEA, LATAM, and North America is $180.9B. The majority of this is represented by the UK and Germany, followed by the United States, France, and Italy.

02

Average annual financial crime compliance costs are highest for mid/large UK and European financial institutions. The average cost of financial crime compliance is significantly higher for mid/large financial institutions in the UK, Germany, France, Italy, and the Netherlands compared to those in other global markets. Labor plays a sizeable role with compliance costs across regions, though there are a number of other factors that contribute to higher European costs, including increasingly complex regulations, data privacy limitations, sanctions violations, and level of skilled labor.

03

Each global region has its own unique risks and challenges with money laundering and financial crime compliance. Regulatory compliance and minimizing reputational risk are common financial crime compliance drivers across regions. These relate to common challenges with regulatory reporting, customer risk profiling, and sanctions screening. Other drivers and challenges vary by region given their particular financial crime and regulatory situations.

04

Non-bank payment providers create additional compliance headaches and risks for financial firms across regions, particularly in LATAM and Canada. Across regions, the negative impact is broad, including increased alert volumes, more correspondent banking risk, greater compliance team stress, and higher technology and labor costs.

05

These challenges and issues are having a negative impact on financial institutions, particularly in EMEA, LATAM, and the U.S. Financial crime compliance costs have risen by double-digit percentages during the past two years.

06

A layered approach to financial crime compliance technology is crucial to facilitating a more cost-effective, efficient compliance approach, as well as one that provides benefit to the larger organization.

KEY FINDING 01

The projected total cost of financial crime compliance across all financial institutions in the key markets of APAC, EMEA, LATAM and North America is $180.9B.

Macro

UK AND GERMANY

represent the majority of this, followed by the United States, France, and Italy.

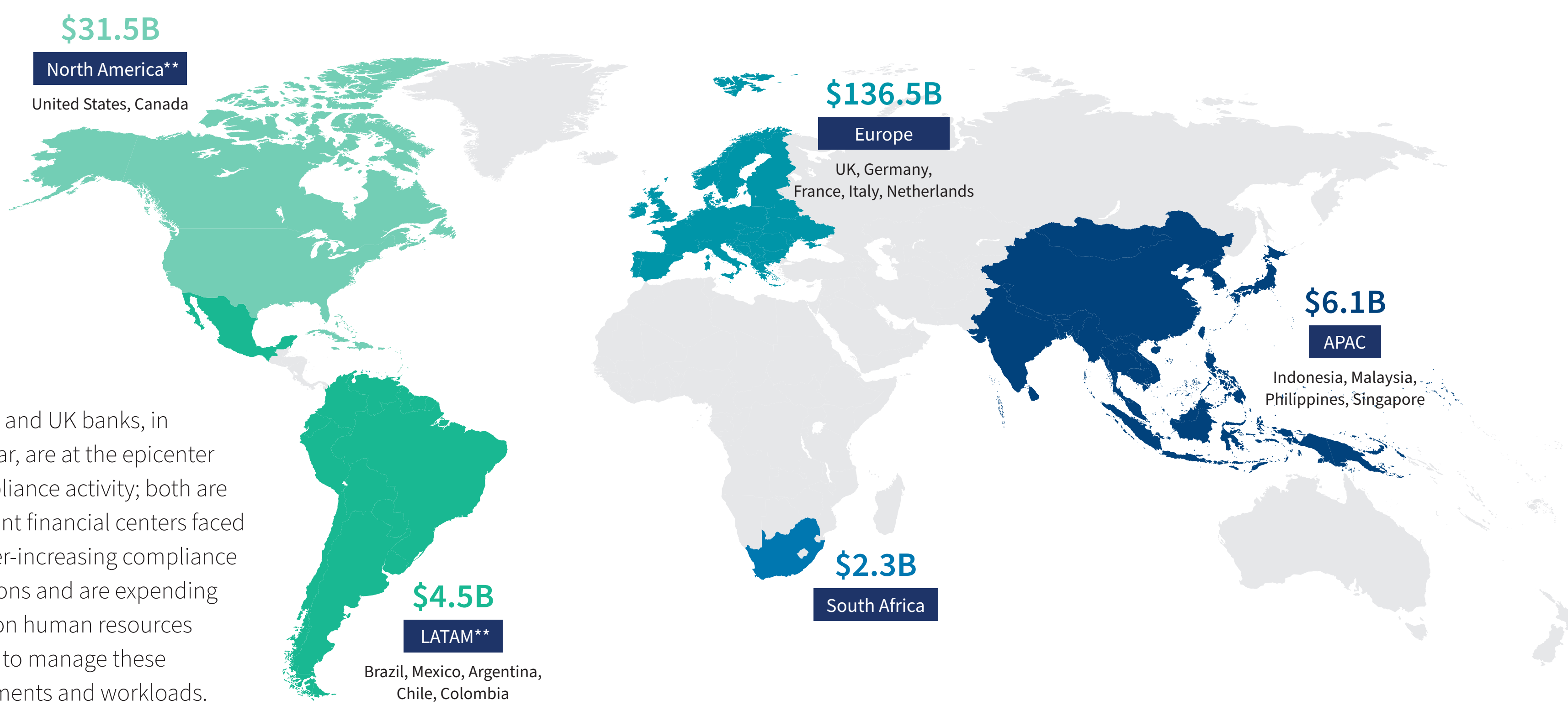
Total projected spend is a function of each individual market in terms of the number of financial institutions and the size and average annual spend of those institutions.

The total cost of compliance per market is based on projecting average spend for financial institutions up to the total universe of firms in a given market. This is a calculation which multiplies the average spend for specific size segments (e.g., <$US1B assets, $US1B–$10B assets, $US10B–$49B assets, etc.) for each type of firm (e.g., banks, asset/wealth management, insurance) by the projected number of firms per size/type. The calculation also accounts for the percent of firms which have multiple compliance operations.

KEY FINDING 01
TOTAL PROJECTED COST BY REGION

THE TOTAL PROJECTED COST OF FINANCIAL CRIME COMPLIANCE* ACROSS KEY GLOBAL MARKETS IS ESTIMATED AT $180.9 BILLION

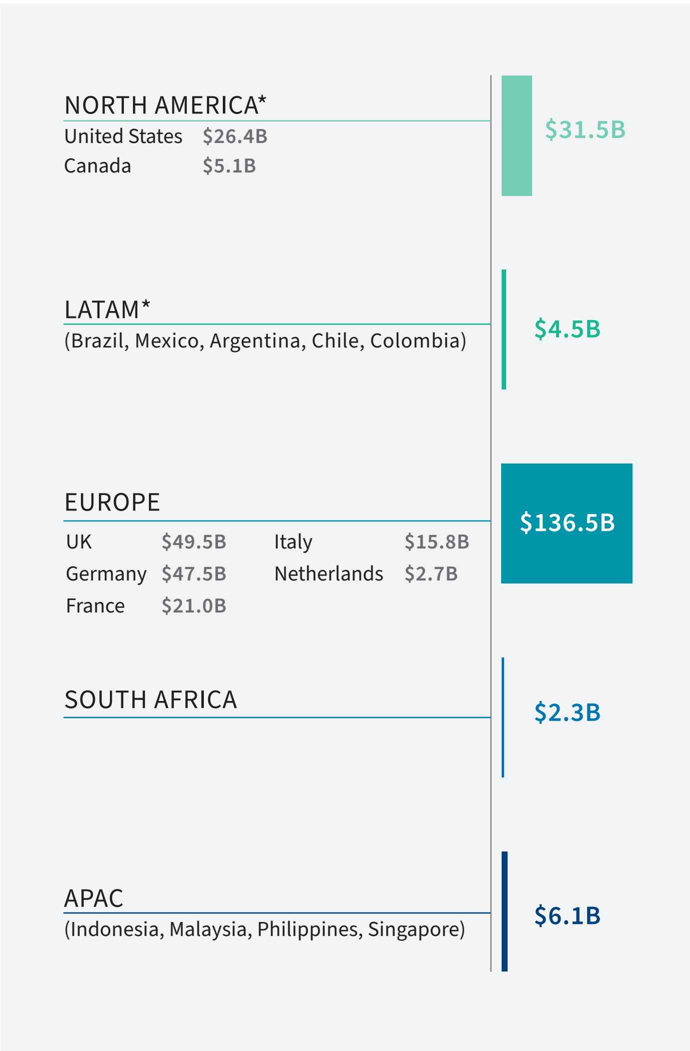
A sizeable portion is represented by the UK and German markets, followed by the U.S., France, and Italy.



German and UK banks, in particular, are at the epicenter of compliance activity; both are significant financial centers faced with ever-increasing compliance regulations and are expending capital on human resources in order to manage these requirements and workloads.

** Representing the following markets: UK, Germany, France, Netherlands, Italy, U.S., Canada, Brazil, Mexico, Argentina, Chile, Colombia, South Africa, Indonesia, Malaysia, Singapore, and the Philippines.*
*** For the purpose of this study, Mexico is included with LATAM instead of North America.*

PROJECTED TOTAL COST OF FINANCIAL CRIME COMPLIANCE BY REGION



U.S. has the highest number of financial institutions (over 6,000); many are small with lower average annual AML costs.

Across the five LATAM study markets, the number of financial institutions is just under the number for Germany alone (roughly 1,300), with the significant majority being smaller asset-sized firms with lower average annual compliance spend. Brazil is the biggest market, with nearly 2.5 times the number of firms compared to Argentina and Mexico and 3–5 times more than in Chile and Colombia.

The UK has the second highest number of financial institutions behind the U.S. (over 2,200); there are many smaller asset management firms and banks, with a more limited number of mid/large firms; however, average annual compliance spend is higher for both small and mid/large firms compared to other markets.

Germany has the third highest number of financial institutions (just over 1,600); but many are mid/large with a significantly higher average annual compliance spend compared to other regions, including the U.S.

France and Italy have a similar number of financial institutions (just under half as many as Germany); a number are mid/large with a significantly higher average annual compliance spend compared to other regions, including the U.S.

South Africa has slightly fewer financial institutions compared to France and Italy (roughly 500), split by small and mid/large but with lower average annual compliance spend per institution.

As with LATAM, the number of financial institutions across the four APAC study markets is just under the number for Germany alone (roughly 1,400), with nearly three-fourths being smaller asset-sized firms and lower average annual compliance spend. Singapore is the largest market and represents half of the total projected spend.

For the purpose of this study, Mexico is included with LATAM instead of North America.

KEY FINDING 02

Average annual financial crime compliance costs are highest for mid/large UK and European financial institutions.

While not insignificant across global markets, the average cost of financial crime compliance is much higher for mid/large financial institutions in the UK, Germany, France, Italy, and the Netherlands.

These average costs are 3–4 times the level for mid/large financial firms in North America and APAC, and up to nearly 7 times for those in LATAM.

A number of factors make financial crime compliance more costly in Europe, including increasingly complex regulations, data privacy limitations, sanctions violations and labor costs.

THE AVERAGE ANNUAL COMPLIANCE SPEND AMONG SURVEY RESPONDENTS FROM MID/LARGE UK, GERMAN, FRENCH, ITALIAN AND DUTCH FINANCIAL INSTITUTIONS RANGES BETWEEN $41.0M AND $53.8M, WITH THE UK ON THE HIGHER END

7X

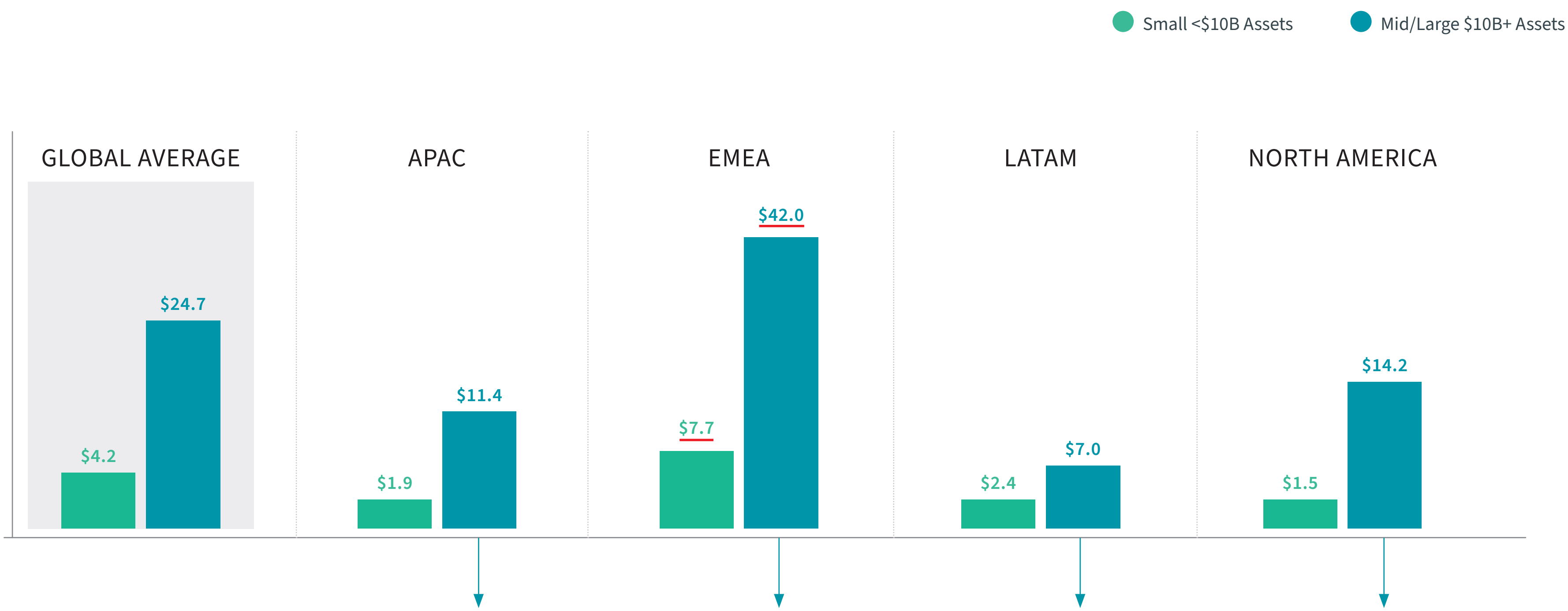
Up to 7 times the spend in LATAM
This is roughly 3–4 times higher than larger North American firms and even more so compared to those in LATAM, APAC, and South Africa.

Various factors explain the significant cost difference between larger European firms and those in other regions; these will be explored on subsequent slides.

Average financial crime compliance spend is not insignificant for firms in other global regions, with similarly high levels among mid/large North American, Singaporean, Indonesian, and Filipino firms.

AVERAGE FINANCIAL CRIME COMPLIANCE OPERATIONS SPEND PER ORGANIZATION

(Annual Cost in Millions)



APAC	
Singapore	$13.9M
Indonesia	$13.7M
Malaysia	$8.2M
Philippines	$11.9M

EMEA	
UK	$53.8M
Germany	$46.1M
France	$41.0M
Italy	$44.4M
Netherlands	$49.3M
South Africa	$10.0M

LATAM	
Brazil	$6.0M
Mexico	$8.4M
Argentina	$6.4M
Chile	$7.4M
Colombia	$5.6M

NORTH AMERICA	
U.S.	$14.3M
Canada	$14.0M

Denotes being significantly higher for all or most account types compared to other regions

Denotes a significant or directional difference compared to some or all countries within category

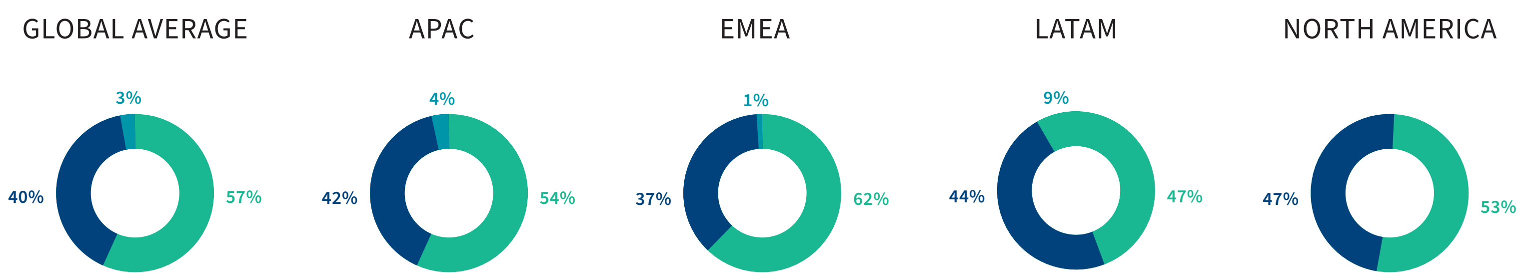
LABOR IS A KEY FACTOR BEHIND HIGHER FINANCIAL CRIME COMPLIANCE COSTS AMONG MID/LARGE UK AND EUROPEAN FIRMS; THIS IS DRIVEN BY INCREASED REGULATION AND PRIVACY LAWS

Larger firms in most European study markets (France, Germany, and Italy) tend to apportion roughly 62% of financial crime compliance costs to labor (this is even higher among mid/large UK firms at 64%). Some of this is a function of significant hiring activity in recent years due to increased regulations and to address larger workloads following punitive measures from regulators (e.g., deferred prosecution agreements).

That said, other markets still devote a sizeable portion of their compliance spend to labor as well, particularly APAC and North America, which report similar (and not insignificant) average costs of compliance by their mid/large financial institutions.

Average Distribution of Financial Crime Compliance Costs

Labor Technology Other



APAC

	Labor	Tech
Singapore	52%	45%
Indonesia	55%	41%
Malaysia	55%	42%
Philippines	58%	41%

EMEA

	Labor	Tech
UK	**64%**	36%
Germany	**64%**	36%
France	58%	**42%**
Italy	**61%**	39%
Netherlands	**64%**	36%
South Africa	**65%**	35%

LATAM

	Labor	Tech
Brazil	**49%**	42%
Mexico	**48%**	43%
Argentina	43%	**50%**
Chile	44%	**49%**
Colombia	47%	**46%**

NORTH AMERICA

	Labor	Tech
U.S.	54%	46%
Canada	52%	48%

Q: Why is the average cost of financial crime compliance much higher for mid/large European financial firms compared to other regions?

A: There are a number of overlapping factors, driven by a regulatory environment and political issues unique to Europe at this time. These include:

- ✓ Increasingly complex regulation
- ✓ GDPR challenges

↓

- ✓ Increased volume/hours associated with completing due diligence
- ✓ Compliance teams are larger and require more skilled and higher-salaried professionals

EUROPEAN FINANCIAL FIRMS TAKE LONGER TO COMPLETE BUSINESS ACCOUNT DUE DILIGENCE, WHICH INCREASES THE COST OF FINANCIAL CRIME COMPLIANCE

Drivers Of Larger European Financial Crime Compliance Costs

GENERAL DATA PROTECTION REGULATION (GDPR) CHALLENGES

INCREASINGLY COMPLEX REGULATION

GDPR creates headaches for financial crime compliance processes.

- More required documentation
- Firms need to obtain consent from individuals before using their personal data, thus lengthening due diligence times
- Limitations on the use of personal data

European financial crime regulations are putting more pressure on due diligence and onboarding efforts, including:

- Stricter ultimate beneficial ownership requirements as per the Fifth Money Laundering Directive (5AMLD)
- Limitations on using simplified due diligence across pooled client accounts
- Deeper checks on payment companies, verifiable accounts, and cryptocurrency

Leading European financial firms have particularly felt the pain of hefty fines by U.S. regulators.

- Sanctions violations/concerns
- Increased correspondent banking risks where loans or transactions have been processed in U.S. denominations

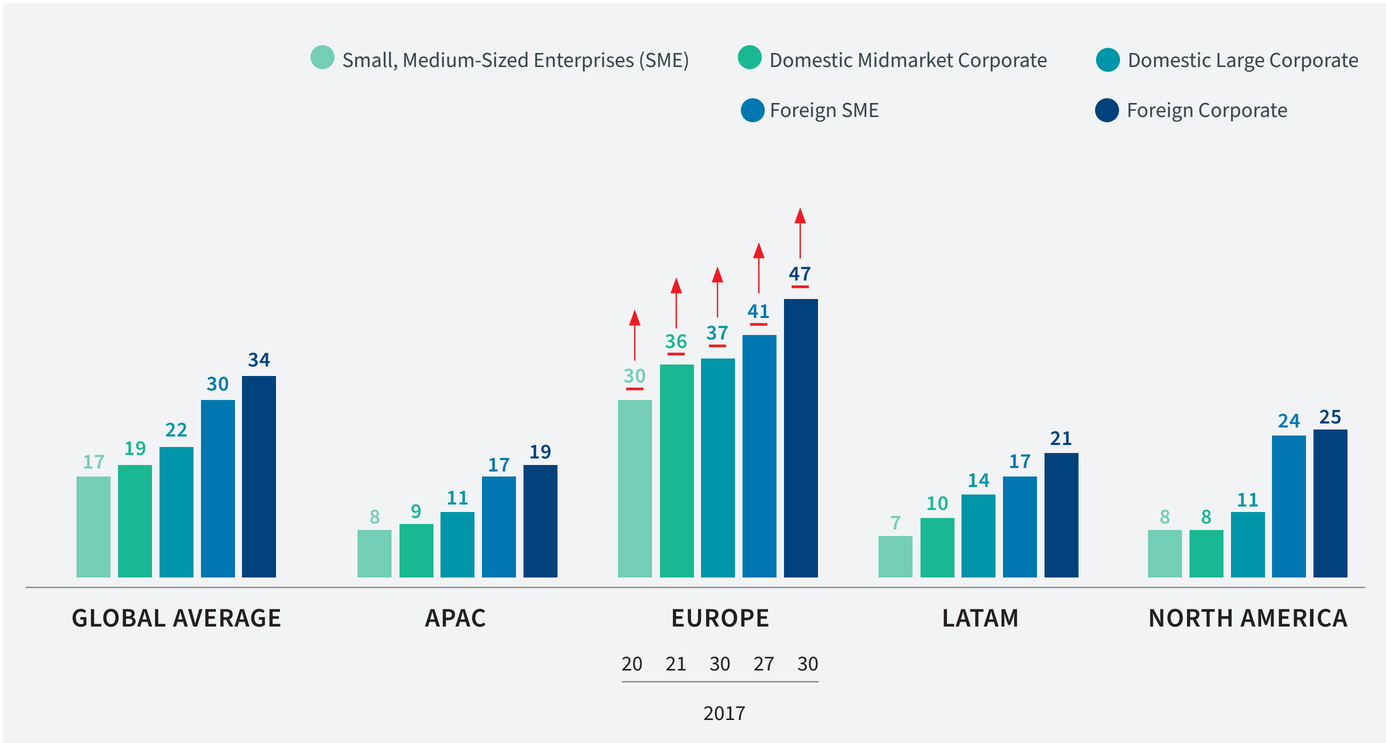
AVERAGE HOURS REQUIRED FOR COMPLETING CUSTOMER DUE DILIGENCE (BUSINESS ACCOUNTS)

These have impacted European financial firms' compliance workloads.

The time required to complete business account due diligence by European firms has increased significantly since 2017. Further, European firms took longer to do this compared to other regions in 2019.

Drivers Of Larger European Financial Crime Compliance Costs

LABOR – INCREASED CDD VOLUME / HOURS



Denotes significant increase for account type since 2017

Denotes being significantly higher for all or most account types compared to other regions

EUROPEAN SURVEY RESPONDENTS ALSO REPORT HAVING LARGER COMPLIANCE TEAMS, ON AVERAGE, THAN THOSE IN OTHER MARKETS

Drivers Of Larger European Financial Crime Compliance Costs

GDPR CHALLENGES

INCREASINGLY COMPLEX REGULATION

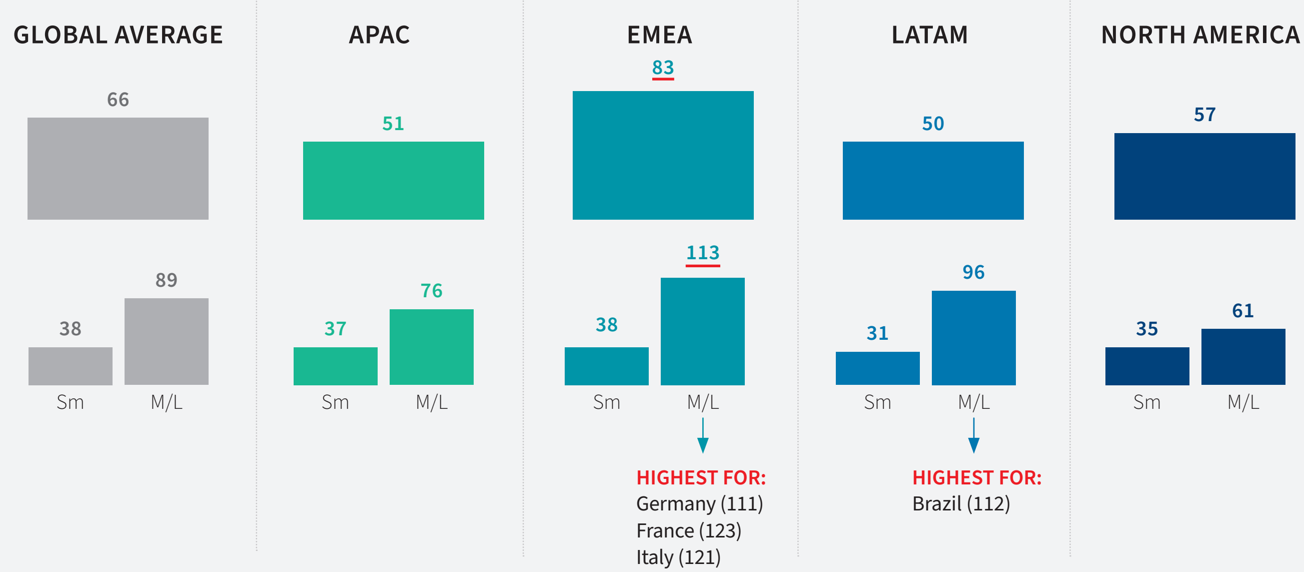
There is a reported need for more specialized professionals among European financial firms.

Some larger banks have more recently hired additional staff – particularly experienced and specialized – given increased Ultimate Beneficial Owner (UBO) regulations and more scrutiny from recent high profile money laundering and sanctions-related scandals in Europe.[6]

LABOR: LARGER, MORE SKILLED TEAMS

Mid/large German, French and Italian firms reported larger teams compared to those in the Netherlands.

Average FTE Staff Employed in Financial Crime Compliance Operations



— Denotes being significantly higher for all or most account types compared to other regions

THE CONFLUENCE OF THESE VARIOUS FACTORS CREATES TURBULENCE FOR EUROPEAN COMPLIANCE TEAMS

And Contributes to Higher Compliance-Related Labor Costs Compared to Other Regions.

While the average salaries for experienced compliance professionals (10+ years) are high for mid/large financial firms in each region, with North America registering the highest, there are significantly more experienced teams in mid/large European firms (average 84% with 3+ years; 35% with 10+ years).

A sizeable portion of APAC, LATAM, and North American staff are entry-level.

Drivers Of Larger European Financial Crime Compliance Costs

GDPR CHALLENGES

COMPLEX REGULATION

- GDPR creates headaches for financial crime compliance processes
- European financial crime regulations are putting more pressure on due diligence and onboarding efforts
- Leading European financial firms have particularly felt the pain of hefty fines by U.S. regulators

INCREASED CDD VOLUME/HOURS

LARGER, MORE SKILLED TEAMS

- Larger compliance teams
- Longer due diligence times
- Need for more specialized professionals

HIGHER LABOR COSTS

FTE Experience Levels and Salaries: Mid/Large Financial Firms*

	GLOBAL AVERAGE		APAC		EMEA		LATAM		N. AMERICA	
	Avg. % Experience	Average Salary	Avg. % Experience	Average Salary	Avg. % Experience	Average Salary	Avg. % Experience	Average Salary	Avg. % Experience	Average Salary
Entry (1-3 years)	31%	$47,226	**50%**	$31,326	15%	$38,035	**43%**	$37,620	38%	**$59,000**
Mid (3-9 years)	41%	$73,961	29%	$50,652	**49%**	$66,646	41%	$75,200	36%	**$84,050**
High (10+ years)	29%	$122,479	21%	$77,983	**35%**	**$111,168**	16%	$89,500	**26%**	**$144,400**

M/L High (10+ years) avg. salary highest for: Germany ($114k), France ($110k), Italy ($123k)

*Reported salary levels do not include benefits

— Denotes being significantly higher for all or most account types compared to other regions

KEY FINDING 03

Each global region has its own unique risks and challenges with money laundering and financial crime compliance.

Regulatory compliance and minimizing reputational risk are common financial crime compliance drivers across regions.

These relate to common challenges with regulatory reporting, customer risk profiling, and sanctions screening.

Other drivers and challenges vary by region given their particular financial crime and regulatory situations.

While common drivers and challenges emerge, the underlying reasons differ according to unique issues and risks within each region.

EACH GLOBAL REGION HAS UNIQUE CHALLENGES, RISKS, AND PRESSURES RELATED TO MONEY LAUNDERING AND COMPLIANCE EFFORTS.

While there are common challenges and priorities, the drivers behind them are different.

KEY ISSUES IMPACTING FINANCIAL CRIME COMPLIANCE CONCERNS AND PRIORITIES: NORTH AMERICA*

Canada has been cited as "one of the world's major money-laundering jurisdictions" by the U.S. State Department.[7] This coincides with weaknesses cited about Canada's AML/Counter Terrorism Financing (CTF) regime in Financial Action Task Force's (FATF) 2016 Mutual Evaluation report, including the need for better and more timely abilities of Canadian law enforcement to fight money laundering and terrorist financing.[8]

There appears to be **more aggressive regulatory monitoring of North American wealth management/investment firm compliance activities.**[9] Some of this may relate to reported weaknesses in alert reviews and monitoring of deposits for suspicious activities, including from penny stock transactions.[10]

7 theglobeandmail.com/canada/article-canada-needs-to-do-more-to-curb-money-laundering-us-report-says/
8 reuters.com/article/bc-finreg-canada-aml-iduskcn1md240
9 insurancenewsnet.com/innarticle/2018-finra-fines-increase-cases-down
10 Ibid

**For purposes of this study, Mexico is included in LATAM and not in North America.*

KEY ISSUES IMPACTING FINANCIAL CRIME COMPLIANCE CONCERNS AND PRIORITIES: LATAM*

The TriBorder Area (TBA) between Argentina, Brazil and Paraguay presents **high risk for narcotics trafficking,** and therefore, to financial firms that may have accounts linked to illicit funds and money laundering.

Trans-national criminal organizations operate throughout Brazil and launder proceeds from drug trafficking operations and human smuggling.

Mexico is concerned with crime and money laundering methods that **hide beneficial ownership and cash smuggling across the U.S.-Mexican border.**[11] The Odebrecht and Lava Jato scandals also continue to cause concern.

11 Mutual Evaluation Report of Mexico 2018, Financial Action Task Force (FATF); fatf-gafi.org/countries/#Mexico

**For purposes of this study, Mexico is included in LATAM and not in North America.*

KEY FINDING 03
REGIONAL ISSUES IMPACTING FCC

KEY ISSUES IMPACTING FINANCIAL CRIME COMPLIANCE CONCERNS AND PRIORITIES: EUROPE

GDPR, high profile sanctions violations, and increased compliance regulations, including stricter focus on ultimate beneficial ownership, have contributed to added pressure and workloads experienced by compliance teams.

KEY ISSUES IMPACTING FINANCIAL CRIME COMPLIANCE CONCERNS AND PRIORITIES: SOUTH AFRICA

More due diligence and documentation required with identity verification and beneficial relationships of new clients; requiring more digital identity attributes to be assessed. This puts pressure on the onboarding processing.

KEY ISSUES IMPACTING FINANCIAL CRIME COMPLIANCE CONCERNS AND PRIORITIES: APAC

Tighter regulatory oversight and requirements put into effect as a result of the 1MDB scandal originating in Malaysia and involving a number of Singaporean banks. U.S. and Singaporean regulators are actively watching as a result.

Other challenges include proximity to international trafficking routes, presence of **active terrorist** organizations and **smuggling activities**.

OVERALL, REGULATORY COMPLIANCE, REPUTATIONAL RISK, AND DE-RISKING EMERGE AS TOP DRIVERS FOR FINANCIAL CRIME COMPLIANCE INITIATIVES

These factors are even more important for LATAM firms (71%-85%), perhaps because drug trafficking and corruption proceeds are key concerns in the region, including the risky TriBorder Area.

De-risking is more of a driver, particularly in emerging markets of LATAM and APAC, with the 1MDB scandal playing a role with the latter, as well as the sizeable terrorist financing risk from the Indonesian market.

Improving business results (62%) is ranked higher by North American firms, suggesting that these financial institutions recognize ways in which increased customer knowledge benefits the broader organization, including the business development and marketing functions.

EMEA firms are more concerned with supporting correspondent banking (47%) than others are, suggesting that the inherent challenge of "knowing your customers' customers" has made these relationships more risky in the stricter KYC environment.

DRIVERS OF FINANCIAL CRIME COMPLIANCE INITIATIVES IN RESPONDENTS' ORGANIZATIONS

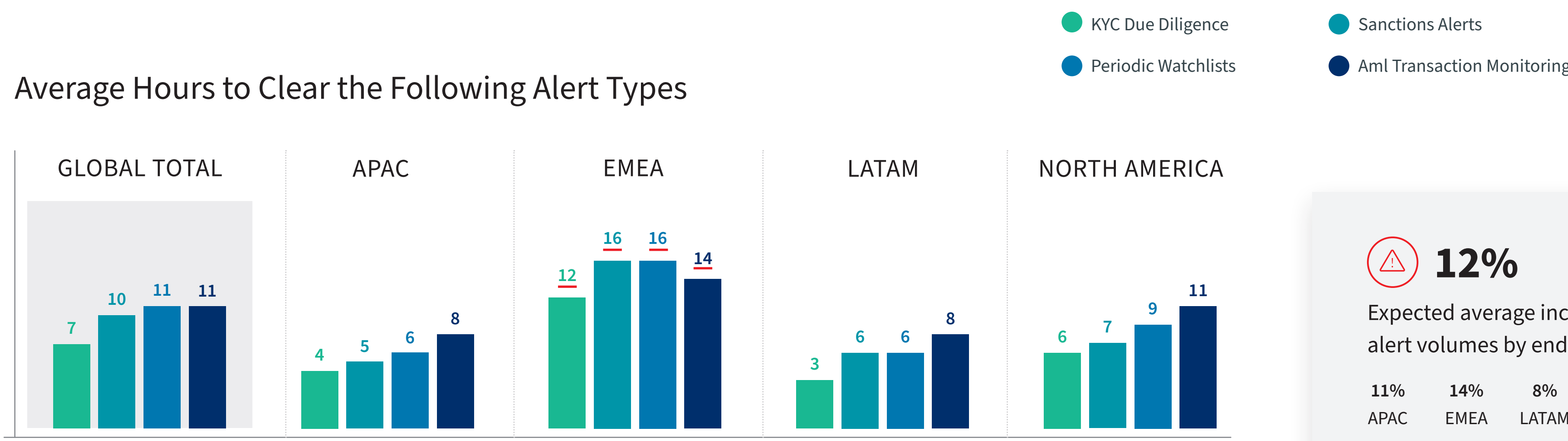
(Ranked Among Top 3)

— *Denotes being significantly higher for all or most account types compared to other regions*

ON AVERAGE, ANALYSTS IN FINANCIAL INSTITUTIONS FROM EUROPEAN COUNTRIES ESTIMATE THE TIME REQUIRED TO CLEAR VARIOUS ALERT TYPES TO BE SIGNIFICANTLY LONGER – PARTICULARLY IN THE FINANCIAL CENTER OF GERMANY

European Firms Expect a Somewhat Higher Increase in Alert Volumes in the Near Future Compared to Other Regions. Interestingly, LATAM Firms Expect Less of an Increase in Alert Volumes (8%) in the Near-Term Compared to Others.

Average Hours to Clear the Following Alert Types



Germany	12	20	21	17
France	12	17	16	10
Italy	13	13	15	15
Netherlands	11	12	11	17
South Africa	9	8	11	12

— *Denotes being significantly higher for all or most account types compared to other regions*

12%

Expected average increase in alert volumes by end of 2019

11%	14%	8%	11%
APAC	EMEA	LATAM	NORTH AMERICA

TRADITIONAL CHALLENGES IMPACT COMPLIANCE OPERATIONS, WITH DIFFICULTIES INVOLVING RISK PROFILING, SANCTIONS SCREENING, AND EFFICIENT ALERT RESOLUTION, MAKING IT MORE DIFFICULT TO OPTIMIZE COMPLIANCE PROGRAMS

Regulatory reporting is a key challenge outside of EMEA, particularly for LATAM, Singapore, and South Africa. The underlying reasons differ:

- For Singapore, the MAS and the U.S. Treasury Department have heightened scrutiny of Singaporean banks as a result of the 1MDB scandal and with Singapore being a financial center of APAC, with close proximity to Indonesia and sizeable deposits from Indonesian banks.
- While South Africa is a well-regulated market, the 2017 Financial Intelligence Centre (FIC) Amendment Act has made senior management more accountable and requires financial firms to conduct stricter due diligence with and documentation of beneficial ownership. Not surprisingly, that contributes to KYC for Onboarding being more of a challenge compared to other EMEA markets.
- With LATAM, which is challenged by narcotics trafficking and illicit funds connected with financial accounts, risk profiling is a significant challenge which can impede regulatory reporting. The illicit flow of funds can also make sanctions screening more difficult.

With a number of high profile sanctions breaches by banks in Germany, France, Italy, and the Netherlands, it is not surprising that sanctions screening is a top challenge. This has increased as a challenge among mid/large German, French, and Italian banks during the past two years.

- 81% of German mid/large banks rank this as a top challenge in 2019, compared to 68% in 2017.
- 75% of French and Italian mid/large banks rank it as a top challenge now, compared to 58% and 62% respectively two years ago.

As shown previously, alert resolution times are significantly longer for European financial firms, which also becomes a key challenge.

KEY CHALLENGES FOR FINANCIAL CRIME COMPLIANCE SCREENING OPERATIONS (% RANKED AMONG TOP 3)

Denotes being significantly higher for all or most account types compared to other regions

KEY FINDING 04

Non-bank payment providers create additional compliance headaches and risks for financial firms across regions.

LATAM AND CANADIAN

financial firms have been affected most.

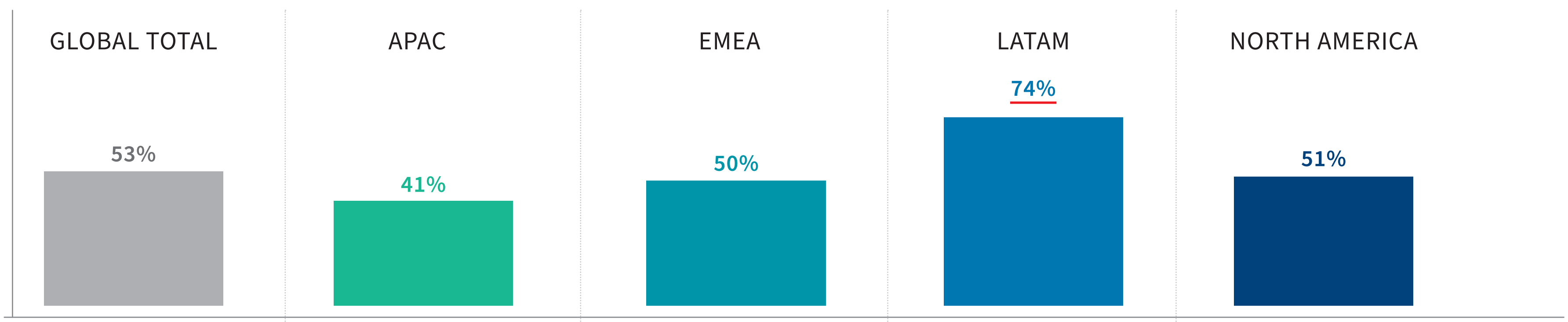
Across markets, the negative impact is broad, including increases with alert volumes, correspondent banking risk, compliance team stress, and technology/labor costs.

Some firms have implemented changes to their screening operations, though more changes are expected to occur in the near future.

ACCORDING TO FINANCIAL CRIME COMPLIANCE PROFESSIONALS, NON-BANK PAYMENT PROVIDERS CONTINUE TO CREATE CHALLENGES FOR THEIR COMPLIANCE PROCESSES

The Greatest Impact is on LATAM Firms — Mexican and Chilean in Particular — Followed by Canadian and Dutch Firms.

Degree Non-Bank Payment Providers Have Created Challenges for Financial Crime Compliance During the Past Year (% moderate/large degree)



APAC		EMEA		LATAM		NORTH AMERICA	
Singapore	43%	Germany	49%	Brazil	70%	U.S.	48%
Indonesia	51%	France	44%	Mexico	86%	Canada	66%
Malaysia	30%	Italy	52%	Argentina	71%		
Philippines	51%	Netherlands	67%	Chile	81%		
		South Africa	36%	Colombia	70%		

— Denotes being significantly higher for all or most account types compared to other regions

Denotes a significant or directional difference compared to some or all countries within category

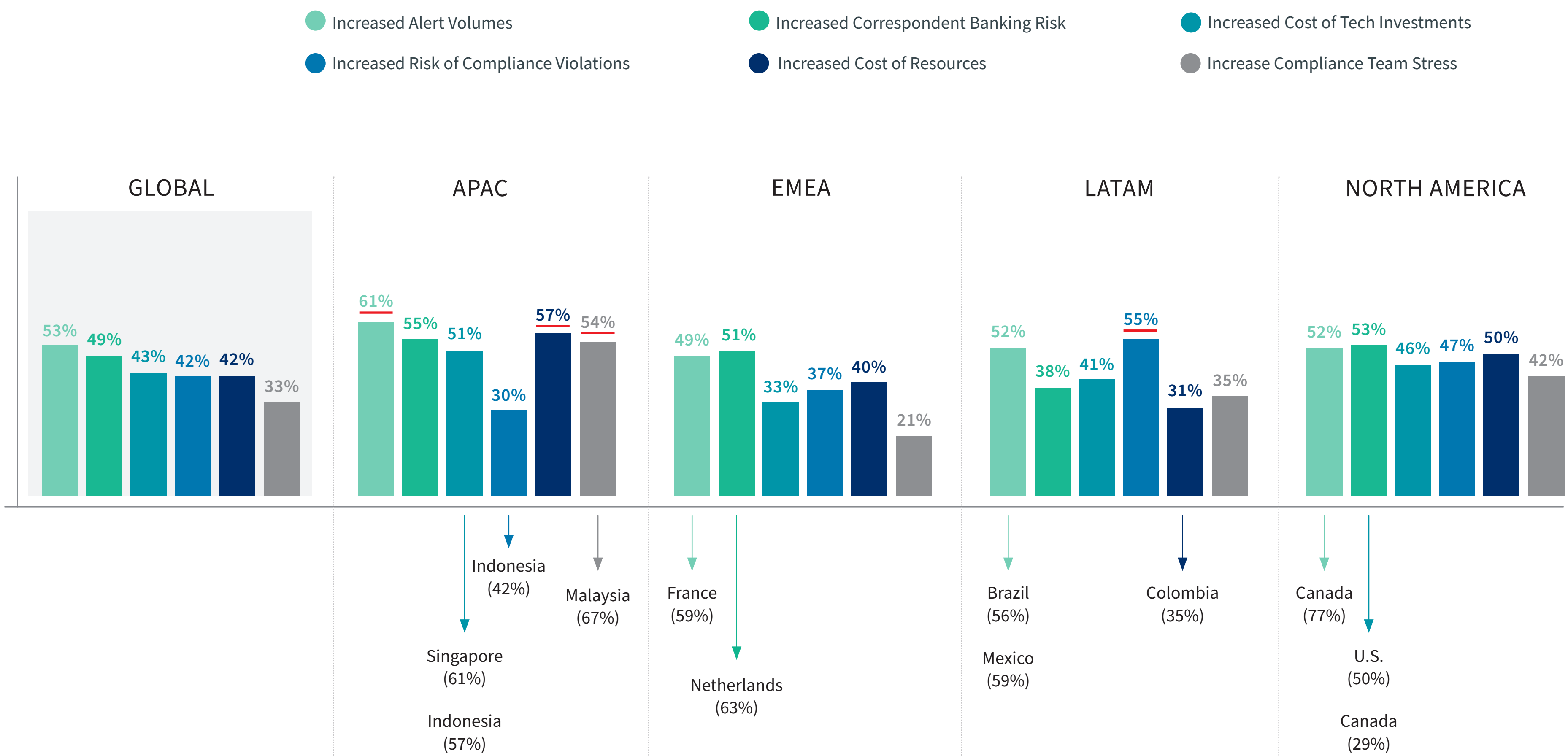
FINANCIAL CRIME COMPLIANCE PROFESSIONALS REPORT THAT THE IMPACT OF NON-BANK PAYMENT PROVIDERS ON THEIR PROCESSES IS BROAD

Larger financial regions of EMEA, APAC, and North America commonly feel an **increased risk to their correspondent banking relationships.**

APAC firms are somewhat more likely than others to feel the negative effects of increased **alert volumes** (61%), **cost of resources** (57%), and **stress** on compliance teams (54%).

LATAM financial services firms are more likely than others to mention increased risk of compliance violations. This could relate to more of them mentioning payment chain complexity/lack of transparency as a screening challenge with non-bank payment providers, in a region that is already high risk for money laundering through narcotics and unregulated long borders.

KEY IMPACTS OF NON-BANK PAYMENT PROVIDERS ON FINANCIAL CRIME COMPLIANCE PROCESSES



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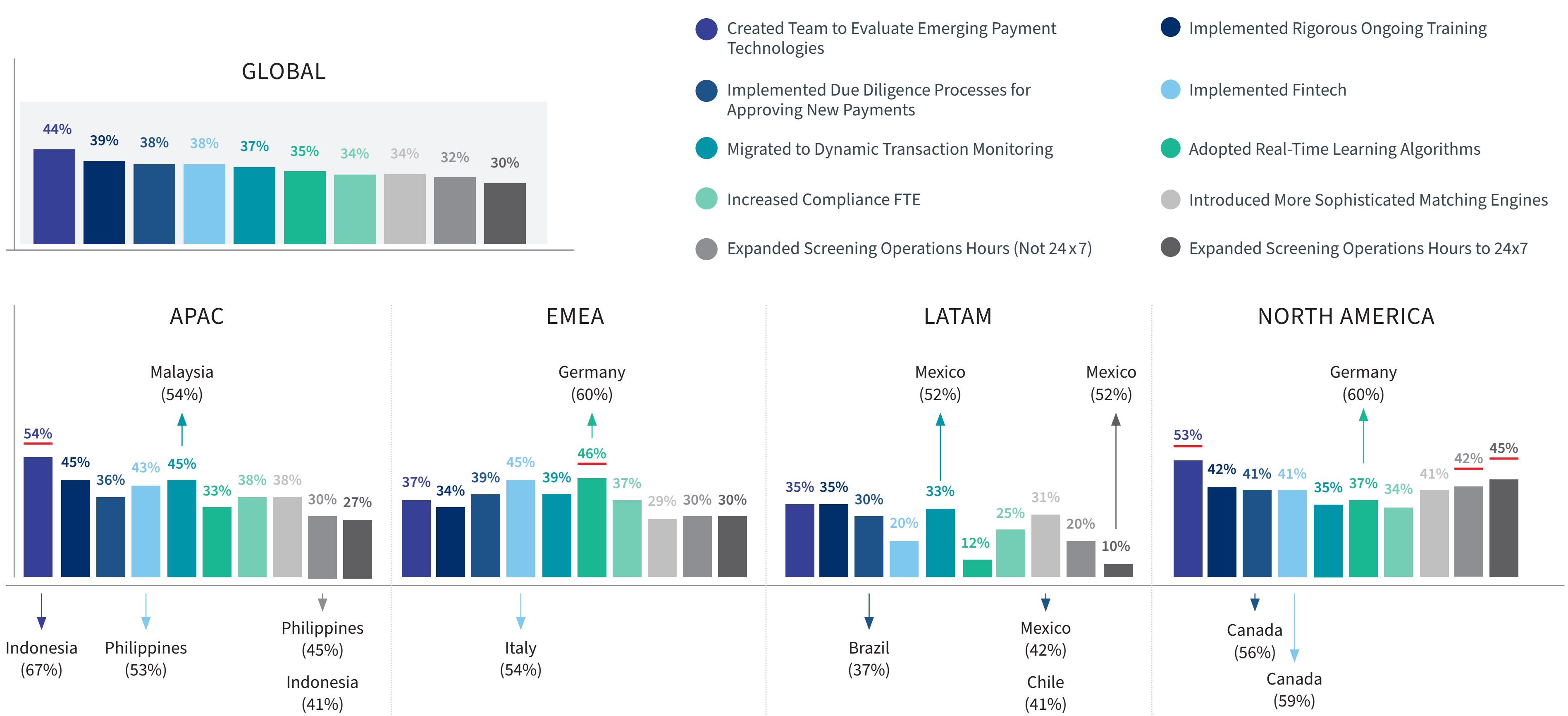
FINANCIAL INSTITUTIONS HAVE TAKEN MEASURES TO ADDRESS PRESSURES FROM NON-BANK PAYMENT PROVIDERS, WHICH INCLUDE A MIX OF ADDING TECHNOLOGY AND ADDITIONAL STAFF

Firms in APAC and North America are more likely to have increased labor resources, while those in EMEA have been somewhat more focused on technological solutions.

Even though LATAM firms have been most likely to indicate being challenged by non-bank payment providers, few have implemented changes.

Actions Financial Crime Compliance Organizations Have Already Taken to Address Non-Bank Provider Challenges



SURVEY RESPONDENTS INDICATED THAT THEY EXPECT NON-BANK PAYMENT PROVIDERS TO CONTINUE ADDING RISK AND WORK TO COMPLIANCE OPERATIONS DURING THE NEXT YEAR

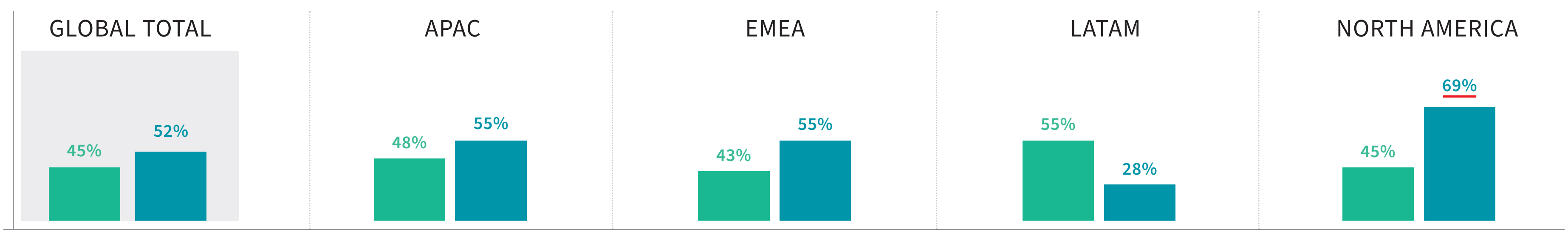
Nearly as many that have already felt the impact of these providers expect to do so over the next year as well.

Respondents from North American firms are most likely to expect to change their compliance screening operations as result of these challenges, particularly among Canadian firms.

A number of LATAM respondents continue to expect challenges from these providers during the next year, though few outside of Argentina expect to make changes to their screening operations.

● Are Expected to Create Challenges for AML Compliance over Next Year
● Are Expected to Cause Changes to Screening Operations over Next Year

Degree Non-Bank Payment Providers...
(% moderate/large degree)



APAC	Create Challenges for AML Compliance	Cause Changes to Screening Operations
Singapore	51%	53%
Indonesia	58%	61%
Malaysia	35%	51%
Philippines	53%	60%

EMEA	Create Challenges for AML Compliance	Cause Changes to Screening Operations
Germany	49%	58%
France	35%	56%
Italy	48%	51%
Netherlands	47%	53%
South Africa	39%	46%

LATAM	Create Challenges for AML Compliance	Cause Changes to Screening Operations
Brazil	55%	29%
Mexico	61%	24%
Argentina	69%	72%
Chile	36%	14%
Colombia	58%	44%

NORTH AMERICA	Create Challenges for AML Compliance	Cause Changes to Screening Operations
U.S.	42%	62%
Canada	46%	87%

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THOUGH ADDING TECHNOLOGY CAN HELP TO REDUCE COSTS AND CHALLENGES WITH FINANCIAL CRIME COMPLIANCE, MANY PLAN TO ADD STAFF/EXPAND OPERATIONAL HOURS AS WELL, PARTICULARLY OUTSIDE THE LATAM REGION

This adds to cost through more labor resources, which will have a more significant impact on larger organizations ($10B+ assets) that have larger teams.

Among the minority of LATAM firms that plan to make changes during the next year, additional compliance technology is under consideration.

Actions Financial Crime Compliance Organizations Will Take to Address Non-Bank Provider Challenges over Next Year

KEY FINDING 05

Financial crime compliance challenges and issues are having a negative impact on financial institutions, particularly in EMEA, LATAM, and the U.S.

Financial crime compliance costs have risen by double-digit percentages during the past two years.

Financial crime compliance processes and burdens are negatively impacting productivity and new customer acquisition efforts.

Compliance teams are stressed; financial firms worry about retaining their skilled professionals.

FINANCIAL CRIME COMPLIANCE PROCESSES AND CHALLENGES ARE HAVING A SIGNIFICANTLY NEGATIVE IMPACT ON EMEA AND LATAM FINANCIAL FIRMS, BOTH FROM A PRODUCTIVITY AND NEW CUSTOMER ACQUISITION PERSPECTIVE

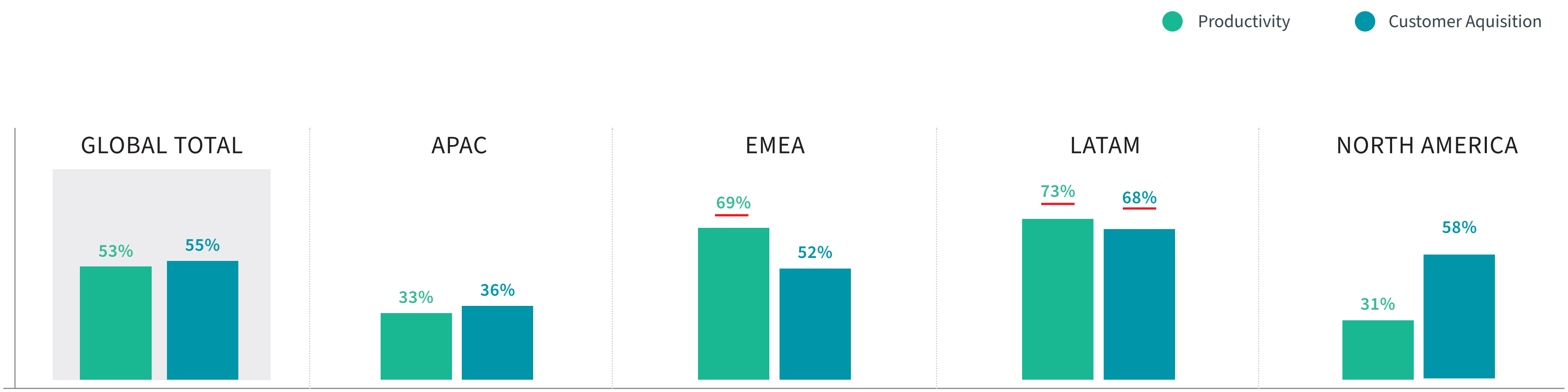
North American Firms are Feeling Negative Effects on the Business Development Side.

Stress from specific market-based risks and challenges in EMEA and LATAM have translated into significantly high average lost hours of productivity and job dissatisfaction.

Some non-bank payment providers contribute to the negative impact on compliance processes and business growth.

- Mid/large European firms which rank sanctions screening and customer risk profiling as a challenge are also likely to indicate negative impacts from non-bank payment providers.[12]
- As mentioned earlier, these providers have impacted APAC firms in particular, with regard to increased alert volumes, cost of resources, and compliance team stress.
- Lack of transaction chain transparency is a significant challenge with LATAM firms.
- Over half of APAC, EMEA, LATAM, and North American firms indicate that non-bank payment providers are impeding the speed of conducting transactions, which slows onboarding new customers.

% INDICATING NEGATIVE IMPACT OF FINANCIAL CRIME COMPLIANCE PROCESSES ON PRODUCTIVITY AND CUSTOMER ACQUISITION



APAC

Country	Productivity	Customer Aquisition
Singapore	42%	40%
Indonesia	33%	33%
Malaysia	21%	35%
Philippines	36%	42%

EMEA

Country	Productivity	Customer Aquisition
Germany	66%	51%
France	76%	55%
Italy	60%	62%
Netherlands	71%	48%
South Africa	74%	68%

LATAM

Country	Productivity	Customer Aquisition
Brazil	73%	74%
Mexico	76%	70%
Argentina	64%	55%
Chile	69%	55%
Colombia	74%	64%

NORTH AMERICA

Country	Productivity	Customer Aquisition
U.S.	32%	59%
Canada	26%	56%

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67% Concerned with job satisfaction in compliance department

HIGHEST FOR: **71%** Philippines | **77%** France | **74%** Netherlands | **(74%-90%)** All LATAM Countries

63 Average hours of annual lost productivity per FTE compliance analyst due to job dissatisfaction

HIGHEST FOR: **122** France | **109** Italy | **109** Netherlands

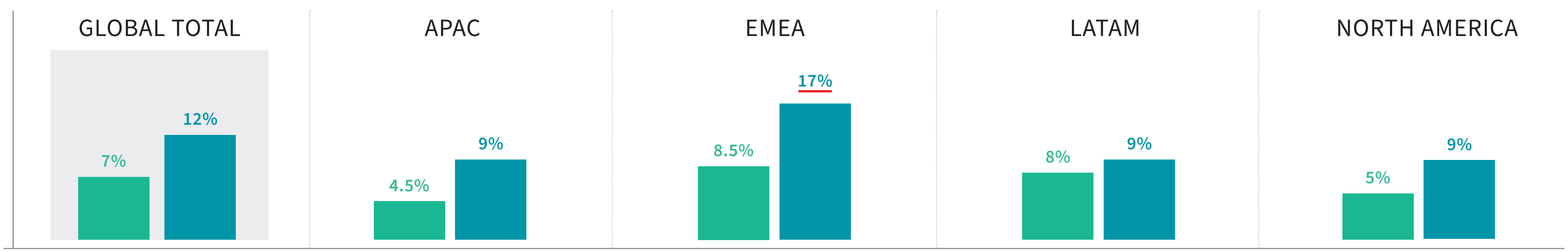
EMEA, APAC, AND NORTH AMERICA EXPECTED TO SEE A DOUBLING OF FINANCIAL CRIME COMPLIANCE COSTS BY THE END OF 2019

This could be related to increasing regulatory pressures and the impact of non-bank payment providers. As discussed, the addition of labor resources and operations hours are an expected action by many for addressing these challenges.

Estimated cost increases are highest for EMEA firms, particularly in Germany and the Netherlands. Various factors, including the challenges associated with GDPR and a heightened focus on proving beneficial ownership via the 4th and 5th AMLD, have increased compliance volumes, priorities, and costs.

● 12 Month Avg. During Past 2 Years ● Expected by End of 2019

Average Increase in Financial Crime Compliance Costs



APAC	12 Month Avg. During Past 2 Years	Expected by End of 2019
Singapore	5.0%	10.0%
Indonesia	4.5%	9.0%
Malaysia	4.5%	9.0%
Philippines	9.0%	7.0%

EMEA	12 Month Avg. During Past 2 Years	Expected by End of 2019
Germany	8.5%	19.0%
France	8.0%	14.0%
Italy	8.5%	17.0%
Netherlands	8.0%	20.0%
South Africa	7.5%	15.0%

LATAM	12 Month Avg. During Past 2 Years	Expected by End of 2019
Brazil	8.5%	9.0%
Mexico	7.5%	8.0%
Argentina	7.0%	8.0%
Chile	7.5%	10.0%
Colombia	9.0%	9.0%

NORTH AMERICA	12 Month Avg. During Past 2 Years	Expected by End of 2019
U.S.	8.0%	14.0%
Canada	3.0%	6.0%

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KEY FINDING 06

A layered approach to financial crime compliance technology is crucial to facilitating a more cost-effective, efficient compliance approach, as well as one that provides benefit to the larger organization.

Financial crime compliance investments can benefit other functional units where the organization has a fuller understanding of customer risks and preferences.

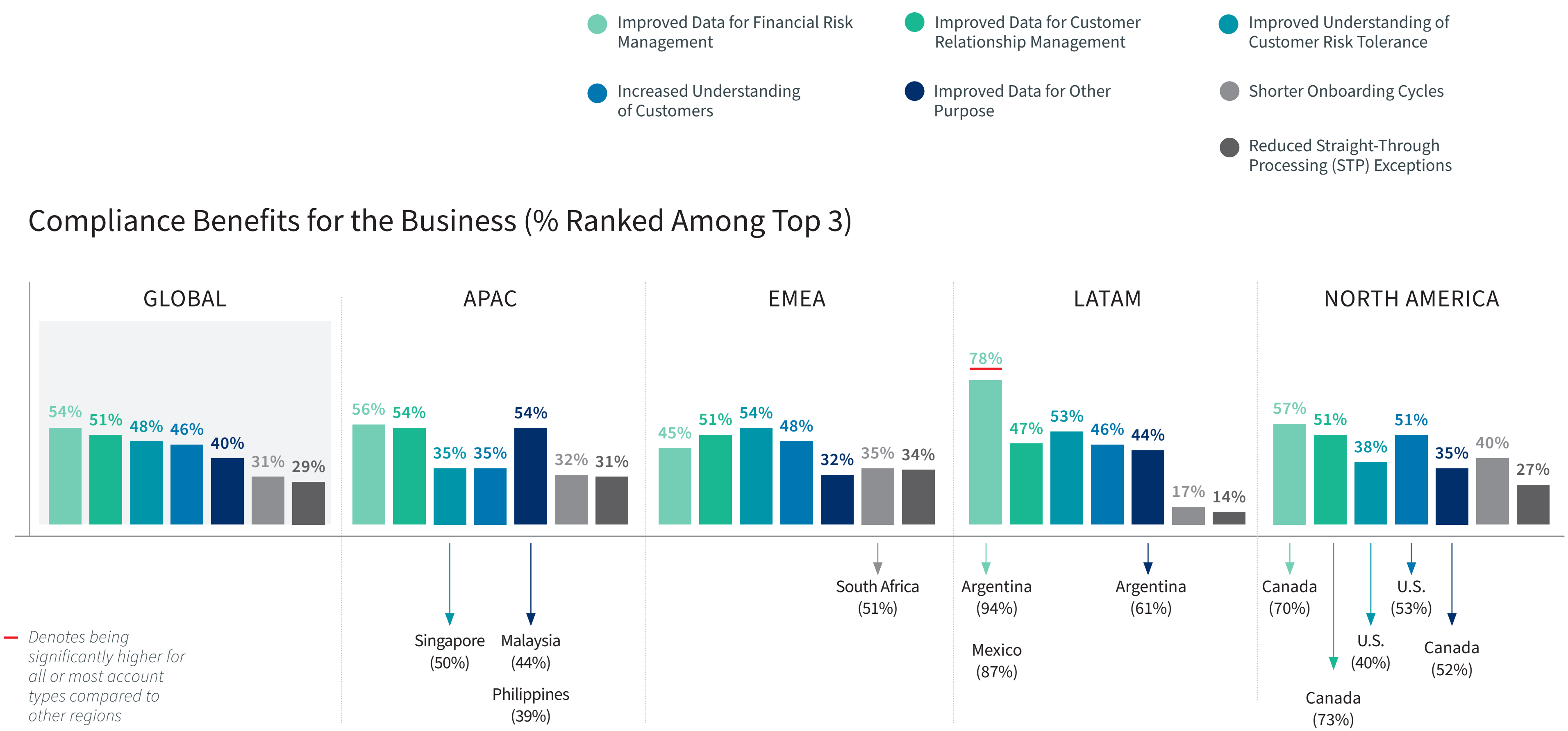
There can be a direct cost benefit when layering financial crime compliance technology.

THERE IS RECOGNITION THAT FINANCIAL CRIME COMPLIANCE INITIATIVES CAN PROVIDE BROADER BENEFITS TO THE BUSINESS

Perhaps because of previously mentioned concerns, LATAM firms are more likely than others to benefit from improvements in data management for financial risk management (78%), as well as an increased understanding of customer risk tolerance (53%).

The latter is also a recognized benefit among EMEA firms (54%), while APAC firms are more likely to recognize benefits in other areas (54%), such as business development and marketing.

Compliance Benefits for the Business (% Ranked Among Top 3)



A MULTI-LAYERED SOLUTION APPROACH TO FINANCIAL CRIME COMPLIANCE AND IDENTITY PROOFING IS ESSENTIAL AS CRIMINALS BECOME MORE SOPHISTICATED, THUS REQUIRING A SOPHISTICATED APPROACH TO FIGHTING THEM

Based on the Variety of Unique Risks That Emerge from Individuals, Transactions, and Contact Channels, it is Important to Assess Both the Individual and the Business (if a Business Account) with a Need for Real-Time Behavioral Data/Analytics.

Risks

Bogus business or misrepresentation of business ownership with intent to commit financial crime

Fake, synthetic identities developed from breached data

Mobile and online channel transactions, and digital onboarding that provide anonymity for synthetic identities

Non-bank payment providers/systems that make transaction and customer transparency difficult, and pose risk of being non-compliant themselves

Cryptocurrencies that enable criminals to move illicit funds, especially across borders

Financial Crime Compliance Challenges

- Customer risk profiling
- Sanctions screening
- Efficient alerts resolution
- Complex payment chains
- Positive ID of PEPs

Effective Solution

A multi-layered approach to financial crime compliance and identity proofing should:

- ✓ Investigate both the **physical** (name, address, documents) and **digital identity attributes** (the digital footprint, devices, and behavior of the entity)
- ✓ Assess both the **individual** (Is this the right person?) and the **transaction** (Are there anomalies with the transaction?)
- ✓ Incorporate both KYC **(individual)** and KYB **(business)** processes
- ✓ Leverage data analytics to assess risks and behaviors in real-time

STUDY FINDINGS SHOW THAT FINANCIAL INSTITUTIONS WHICH USE A MORE-LAYERED SOLUTIONS APPROACH ARE COMPLETING DUE DILIGENCE FASTER THAN OTHERS

This is Found Particularly with Foreign Business Accounts

Average Hours Required for Completing Customer Due Diligence (Business Accounts)

	SME	DOMESTIC MIDMARKET CORPORATE	DOMESTIC LARGE CORPORATE	FOREIGN SME	FOREIGN CORPORATE
Overall: Across All Firms and Regions	10	12	15	24	27
Firms Using a Less-Layered Approach with Financial Crime Compliance Technologies/Services	10	14	15	25	29
Firms Using a More-Layered Approach with Financial Crime Compliance Technologies/Services	7	10	15	16	20

UTILIZING PROPER COMPLIANCE TECHNOLOGIES CAN REDUCE COMPLIANCE LABOR COSTS

While those using a more-layered approach with compliance technology have larger initial outlays related to such technology, this can be viewed as an investment to manage longer-term financial crime compliance costs.

By layering technology as compliance workforces grow, organizations are actually decreasing the cost of compliance per FTE (the labor component), as well as the opportunity costs associated with onboarding friction and lost business. Keeping FTE costs lower is essential to profitability, since labor tends to account for significant increased expenses year-over-year.

	Using a Less-Layered Approach with Technologies*	Using a More-Layered Approach with Technologies*
Overall Average Financial Crime Compliance Operations Spend Per Organization (Annual Cost USD in Millions)	$11.36 M	$16.99 M
% Costs for Labor	61%	48%
Average Cost of Labor	$6.93	$8.16
Average # Compliance Staff	49	96
Average Cost of Compliance Per FTE (Annual Cost USD in Thousands)	$141	$85

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